Weekly Updates Issue # 640

1. Weekly Markets Changes
2. What muted inflation for October means
3. 'The clock is ticking' on Brexit clarity: European Commission head
4. Will FATCA be repealed?
5. U.S. tax bill passes in House
6. Interest rates likely on hold until April: CIBC
7. Average home price in Canada up 5% from last year
8. Bond yields likely to remain low
9. Americans worse off compared to 1998

1. Weekly Markets Changes

[November 17, 2017]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
15,998.57 -40.69 -0.25%	2,578.85 -3.45 -0.13%	23,358.24 -63.97 -0.27%	6,782.79 +81.53 +1.22%	$0.7823 -0.62c -0.79%	$1,292.41 +17.34 +1.36%	$56.71 -0.03 -0.05%

2. What muted inflation for October means

[November 17, 2017] The annual pace of inflation slowed in October as increases in the price of gasoline were smaller than in September, Statistics Canada reported Friday.

Its consumer price index was up 1.4% in October compared with a year ago, following a 1.6% increase in September.

Excluding gasoline, the index was up 1.3% compared with a year ago—more than the 1.1% increase in September.

In an economic research note, Nick Exarhos of CIBC Economics says the fact that inflation was muted in October is further proof that the Bank of Canada should "wait until the spring for another rate hike." He forecasts a "tighter labour market and an economy operating closer to the limits of its capacity should eventually lead to hotter inflation," but core metrics are still wide of the 2% target.

The details

Prices were up in seven of the eight major categories compared with a year ago with the transportation and shelter categories contributing the most.

Transportation prices last month were up 3% compared with a year ago following a 3.8% increase in September, as gasoline prices rose 6.5% year over year in October (compared with 14.1% in September in the aftermath of Hurricane Harvey).

Shelter costs were up 1.2%.
Prices for alcoholic beverages and tobacco products were up 2.7% from a year ago, while food costs were up 1.3% as food bought in restaurants gained 2.9%.
Prices for clothing and footwear, the only category to move lower, fell 1.5% compared with a year ago as the cost of women's clothing fell 4.6% compared with a year ago.
The Bank of Canada, which a uses a 2% inflation target in setting monetary policy, raised its key interest rate target twice this year following strong economic growth to start 2017.
However, economists expect growth for the second half of the year to come in at a slower pace and the central bank has suggested that while further rate hikes are likely, they will be cautious and pay close attention to the incoming economic data.
Of the Bank of Canada's three preferred measures of core inflation, which seek to look through the noise of more-volatile items, CPI-common increased to 1.6% compared with 1.5% in September, while CP-median slipped to 1.7% from 1.8%. CPI-trim held steady at 1.5%.
Derek Holt, vice-president and head of Scotiabank Capital Markets Economics, says the central bank is likely not surprised by the cooler year-ago inflation rate, given it's "forecasting 1.4% year-over-year CPI for Q4 (October MPR)."

3. 'The clock is ticking' on Brexit clarity: European Commission head

[November 17, 2017] European Union leaders warned Britain on Friday that it must do much more to convince them that Brexit talks should be broadened to cover future relations and trade from next month onward.
At an EU summit in Sweden, Prime Minister Theresa May's government was urged to clarify how much Britain will pay in settlement of its financial accounts with the bloc and to ensure that there is no hard border created between Ireland and Northern Ireland.
"I made it very clear to Prime Minister May that this progress needs to happen at the beginning of December at the latest," said EU Council President Donald Tusk. "If there is no sufficient progress by then, I will not be in a position to propose new guidelines on transition and the future relationship," at the summit in Brussels on Dec. 14-15.
Britain is due to leave the EU on March 29, 2019, but it must complete the complex and unprecedented departure process by next October so that parliaments can ratify any agreement.

May desperately wants to discuss future relations and trade, and EU leaders have suggested they could be ready to expand the talks next month. But that's only if "sufficient progress" is made on the divorce bill, the status of Irish borders and the rights of citizens hit by Brexit.

"Great Britain need to clarify what they mean with the financial responsibility," the summit host, Swedish Prime Minister Stefan Lofven, told reporters in the city of Goteborg.

"We all hope that we can decide on the next phase but we still have some way to go," he said.

Britain has suggested that it might be willing to pay 20 billion euros (US$23 billion) to fullfil its financial commitments, while EU officials have said the figure would more likely be between 60 and 100 billion euros (US$71-118 billion).

When Tusk was told that Britain's chief negotiator, David Davis, believes Britain is doing most of the compromising, he countered: "I really appreciate Mr Davis's English sense of humour."

Irish Prime Minister Leo Varadkar said there is no chance of progress unless he gets clear guarantees that Brexit will not result in any new barriers between his country and Northern Ireland, which is part of the U.K.

"We've been given assurances. that there will be no hard border in Ireland, that there won't be any physical infrastructure, that we won't go back to the borders of the past," Varadkar said. "We want that written down in practical terms in the conclusions of phase one."

"It's 18 months since the (Brexit) referendum. It's 10 years since people who wanted a referendum started agitating for one. Sometimes it doesn't seem like they've thought all this through," he said, of May's government.

The British government insists that the preliminary issues and future relations are inextricably linked and should be discussed together, and May remained hopeful that she will get the green light from EU leaders at their next summit in Brussels on Dec 14-15.

"Of course we want to move forward together, talking about the trade issues and trade partnership for the future," she said.

"I look forward to the European Union responding positively to that so we can move forward together and ensure that we can get the best possible arrangements for the future."

This EU summit in Sweden is ostensibly about employment and social welfare, but May has been using her visit to hold bilateral talks on Brexit with several leaders, including Lofven, Varadkar and EU Council President Donald Tusk.

Brexit negotiations are bogged down over preliminary issues, and the EU's chief Brexit negotiator has warned that progress must be made within the next week, by Nov. 24, to have any hope of broadening the talks this year.
"The clock is ticking," European Commission President Jean-Claude Juncker said Friday. "I hope that we will be able to come to an agreement as far as the divorce is concerned in the December (EU) council but work has still to be done."

4. Will FATCA be repealed?

[November 17, 2017] Despite the Republicans unveiling a major overhaul of the U.S. tax code, the Foreign Account Tax Compliance Act, or FATCA, remains untouched—for now, at least.
Will that change? In a Nov. 17 press release, deVere CEO Nigel Green says FATCA "has been wreaking havoc with the global financial system outside the U.S.," meaning it's time for U.S. leaders to make good on their promise to call for a repeal.
Green is co-leading a campaign effort to push for the repeal of the foreign tax act, along with former U.S. diplomat Jim Jatras. In a letter sent to Secretary of the Treasury Steve Mnuchin, the two argue that "FATCA is a textbook example of a badly conceived, badly written, and badly enforced law that doesn't achieve its stated purpose." They also say that even the IRS' own Taxpayer Advocate Service has criticized the act.
Green and Jatras condemn FATCA for its "indiscriminate invasion of privacy." They also say it's not "an effective mechanism for detecting offshore tax evasion and recovering revenues due. […] FATCA is a failure from that standpoint."

Residency-based taxation

In their letter, the pair also say the Republicans should honour their pledge to reconsider the way in which U.S. citizens overseas are taxed. They say, "The United States is the only major country that taxes its citizens worldwide on the basis of citizenship, not residen[cy]. This creates a host of problems and inequities […]." As a result, they call for the adoption of a residency-based taxation system.
Even if that happens, Green and Jatras maintain that FATCA's "larger toxic features" wouldn't be solved, so that act must still be repealed as well.

5. U.S. tax bill passes in House

[November 16, 2017] Republicans rammed a near $1.5-trillion package overhauling corporate and personal taxes through the House on Thursday, edging President Donald Trump and the GOP toward their first big legislative triumph in a year in which they and their voters expected much more.

The near party-line 227-205 vote came as Democrats on the other side of the Capitol pointed to new estimates showing the Senate version of the plan would boost future taxes on lower and middle-income Americans. Those projections, coupled with complaints by some GOP senators about their chamber's proposal, suggest party leaders still face a challenge in crafting a measure that can make it through Congress over solid Democratic opposition.

House passage raised GOP hopes that Trump would be able to claim a big victory in a year highlighted so far by the Senate crash of the party's effort to repeal President Barack Obama's healthcare law. The first major tax rewrite in three decades has been a career-long goal of countless Republican politicians, who tout the reductions as a boon to families, businesses and the entire economy.

"Passing this bill is the single biggest thing we can do to grow the economy, to restore opportunity and help those middle income families who are struggling," said House Speaker Paul Ryan, R-Wis.

Thirteen Republicans—all but one from high-tax California, New York and New Jersey—voted "no" because the plan would erase tax deductions for state and local income and sales taxes and limit property tax deductions to $10,000. Defectors included House Appropriations Committee Chairman Rodney Frelinghuysen, R-N.J., who said the measure would "hurt New Jersey families."

Democrats derided the plan as a scheme to help the rich but do little for others. "Republicans have brought forth a bill that is pillaging the middle class to pad the pockets of the wealthiest and hand tax breaks to corporations shipping jobs out of America," declared House Minority Leader Nancy Pelosi of California.

Both the House and Senate versions of the legislation would cut the 35% corporate tax rate to 20%, while reducing some personal taxpayers' rates and erasing and shrinking deductions for individuals. Projected federal deficits would grow by $1.5 trillion over the coming decade.

Before the vote, Trump urged House Republicans at the Capitol to approve the bill, though it was clear beforehand that they had the votes.

"He told us that we have this once-in-a lifetime opportunity to do something really bold, and he reminded us that is why we seek these offices," Rep. Steve Womack of Arkansas said of the closed-door rally.

While House Republicans celebrated, the news was less encouraging for the version making its way through the Senate Finance Committee.

New numbers from Congress' Joint Committee on Taxation showed that beginning in 2021, many families earning under $30,000 annually would face

higher taxes under the Senate package. By 2027, families making less than $75,000 would face tax boosts while those making more would enjoy lower levies.
Oregon Sen. Ron Wyden, top Democrat on the Finance panel, said the projections showed the Senate bill was "just shameful" because middle-class families would "get hammered."
Republicans attributed the new figures to two Senate provisions.
One would end the measure's personal tax cuts starting in 2026, a step GOP leaders took to contain the measure's costs. The other would abolish the "Obamacare" requirement that people buy health coverage or pay tax penalties.
Eliminating those fines is expected to mean fewer people would obtain federally subsidized policies, and the tax analysts consider a reduction in those subsidies to count as a tax increase. The nonpartisan Congressional Budget Office has projected that would result in 13 million more uninsured people by 2027, making the provision a political risk for some lawmakers.
Republicans on the Finance panel showed no signs of backing down. Sen. John Thune, R-S.D., argued that the same Taxation Committee tables showed that higher earners were still bearing a large share of the overall tax burden.
The figures were released a day after Ron Johnson of Wisconsin became the first Republican senator to say he opposed the GOP bill, complaining that it left taxes too high on some corporations and partnerships.
Besides Johnson, Republican Sens. Susan Collins of Maine, Jeff Flake and John McCain of Arizona, Bob Corker of Tennessee and Lisa Murkowski have yet to commit to backing the tax measure.
Republicans controlling the Senate 52-48 can approve the legislation with just 50 votes, plus tie-breaking support from Vice-President Mike Pence. With solid Democratic opposition likely, that means they can lose just two GOP votes—a precarious figure.
Halting tax cuts for individuals in 2026, derided as a gimmick by Democrats, is designed to pare the bill's long-term costs to the Treasury. Legislation cannot boost budget deficits after 10 years if it is to qualify for Senate procedures barring bill-killing filibusters.
The House measure would collapse today's seven personal income-tax rates into four: 12, 25, 35 and 39.6%. The Senate would have seven rates: 10%, 12%, 23%, 24%, 32%, 35% and 38.5%.
Both bills would nearly double the standard deduction to around $12,000 for individuals and about $24,000 for married couples and dramatically boost the current $1,000 per-child tax credit.

Each plan also would erase the current $4,050 personal exemption and annul or reduce other tax breaks. The House would limit interest deductions to $500,000 in the value of future home mortgages, down from today's $1 million, while the Senate would end deductions for moving expenses and tax preparation.

Each measure would repeal the alternative minimum tax paid by higher-earning people. The House measure would reduce and ultimately repeal the tax paid on the largest inheritances, while the Senate would limit that levy to fewer estates.

6. Interest rates likely on hold until April: CIBC

[November 16, 2017] The Bank of Canada will wait until at least April to change interest rates, allowing it some time to watch NAFTA negotiations and digest Q4 GDP data before making another move, a report from CIBC Capital Markets says.

The BoC maintained its target for the overnight rate at 1% on Oct. 25, saying it expects the recent strength of the Canadian dollar to slow the rise in the pace of inflation. It also pointed to unknowns around NAFTA renegotiation.

With Canada's fourth-quarter GDP numbers not out until March, the CIBC report says the central bank will likely put off another increase at its next announcements on Dec. 6, Jan. 17 and March 7. This will also allow more time to monitor NAFTA talks.

"The market remains oddly blasé about the deterioration in the tone of NAFTA discussions given where they seem to be headed," the report says. "At a minimum, Trump looks set to throw the treaty's fate to Congress, with the resulting uncertainties putting downward pressure on the value of the loonie."

Holding interest rates would allow the bank to assess how a breakdown in negotiations would impact business confidence and capital spending, the report says.

CIBC has also trimmed its medium-term forecast for long-term Canadian bond yields, the report says. "Unlike Treasurys, Canada won't face pressure from rising deficits, greater-than-expected central bank action or an unwind of earlier QE."

7. Average home price in Canada up 5% from last year

[November 15, 2017] The national average price for a home sold in October was $505,937, up 5% from a year ago. Excluding Greater Vancouver and Greater Toronto, the average price was just over $383,000.

The Canadian Real Estate Association says home sales in October ticked higher compared with September led by the Toronto region and the Fraser Valley in B.C.
The association says the number of homes sold through its MLS system in October was up 0.9% from the previous month.
The increase in sales came as the number of newly listed homes slipped 0.8% in October following a jump of more than 5% in September.
The national sales-to-new listings ratio rose to 56.7% in October from 55.7% in September. CREA says a national sales-to-new listings ratio of between 40% and 60% is generally consistent with a balanced market.
Compared with a year ago, the number of homes sold in October fell 4.3%.

8. Bond yields likely to remain low

[November 14, 2017] Bond yields are likely to remain low, says CIBC's Patrick O'Toole, after the Bank of Canada's wait-and-see-approach in its October rate decision.
After two consecutive rate hikes, the Bank of Canada maintained the overnight rate at 1% on Oct. 25, citing uncertainty around NAFTA renegotiations and expectations that the Canadian dollar's strength would slow inflation. As of Nov. 10, the loonie was sitting close to US$0.79, only slightly down from its fall peak of around US$0.82.
"For about every three cents of appreciation of the Canadian dollar, that's equivalent to about 100 basis points or a whole percentage point of a hike by the Bank of Canada," says O'Toole, vice-president of global fixed income at CIBC Asset Management. He co-manages the Renaissance Canadian Bond Fund, an underlying fund in the Renaissance Optimal Income Portfolios.
The Canadian dollar was at US$.078 when the Bank made its most recent rate decision, presenting a potential headwind for the Canadian economy going forward, says O'Toole. The Bank likely wanted to see the implications of those headwinds before moving the lending rate again, he adds.
For Canada, O'Toole predicts growth of around 2% for the next 12 months. That's in line with the Bank's forecast that inflation would rise to 2% in the second half of 2018.
Even if, longer-term, central banks around the world gradually move to raise interest rates to more "normal" levels, O'Toole says bonds yields should remain low.
On Oct. 26, the European Central Bank said that while it would ease the pace of its bond-buying stimulus program, it would continue its purchases until at least September 2018. In the U.K. – where inflation is closer to 3% and nearly

double that of the EU – the Bank of England raised interest rates for the first time in a decade on Nov. 2, but said the effect would be modest.

While the longer-term return to "normal" interest rates could impact bond yields, O'Toole says it won't change the mix of government and corporate bonds in his portfolio.

"We've been of the view these last several years [that] corporate bonds were going to win the day and that has been the case," he explains. "The economy's been OK, the back drop is constructive for economic growth, and that follows through to corporate bonds — they generally outperform government bonds when that's happening. In particular, it tends to happen as interest rates do rise also."

Canada's growth may be slowing after a hot first half of 2017, to more moderate levels, but O'Toole hasn't changed the outlook for his portfolio. "We continue to think that yields could move a little bit higher but it's not going to be anything too dramatic given growth is reverting back pretty much close to trend levels," he says.

9. Americans worse off compared to 1998

[November 13, 2017] Incomes are up, the stock market is soaring, and U.S. home prices have largely recovered from the mortgage meltdown. But Americans still haven't regained all the wealth they lost and, on the whole, are worse off than in 1998. (All figures in this article are in U.S. dollars.)

The Federal Reserve's just-released Survey of Consumer Finances, done every three years, tells a stubbornly grim tale. Median net worth for all families, measured in 2016 dollars, dropped 8% since 1998. (The survey's definition of families includes single people and childless couples, and is equivalent to how other government surveys define households.)

But the rich are getting richer.

For the top 10%, net worth rose 146% since 1998. In 2013, the last time the survey was done, net worth for the top 10% had risen about 75% since 1998.

The lowest income families — the bottom fifth — saw their net worth fall 22%.

Other report highlights:

- Hardest hit is the working class, the second-lowest income tier, whose net worth declined 34%.
- Families in the middle, with incomes from $43,501 to $69,500, treaded water, up just 3.5%.

An analysis of the 2016 data shows that people in the lowest two income bands are getting squeezed from both ends.

Americans own less and owe more

Median debt for all families increased by 25% since 1998, but rose much more sharply for the lower and working classes. Debt was up 57% for those with incomes below $25,300 and up 58% for those with incomes between $25,301 and $43,500. By contrast, debt for the middle class — households with incomes from $43,501 to $69,500 — rose 12.5%.

The top 10%, those with incomes above $177,100, saw a surge in debt as well. The median amount they owed rose 61% — but the value of their assets more than doubled. Contrast that with the lower class, who saw the median value of their assets slide by 47%, and the working class, whose asset value declined 27%.

Homeownership dropped in all income categories but most steeply in the bottom three. The homeownership rate fell 11% for the lower class, 7% for the working class and 5% for the middle class. Among the highest-earning families, the decline was less than 2%. The value of their homes, though, rose 66%, compared with 25% overall.

Why net worth matters

The decline in wealth actually started long before the recession, says sociologist Fabian Pfeffer, research assistant professor at the University of Michigan's Institute for Social Research. The housing bubble, which peaked in 2007, obscured the fact that many Americans had been losing ground since the 1980s, he says.

Economists can debate precisely why so many people have taken it in the teeth in recent decades, but it's clear that years of stagnant or dropping incomes have taken a toll on their ability to get ahead.

The Fed survey shows the median family income before taxes peaked in 2004; by 2013, it had fallen more than 12%. Incomes have since recovered somewhat but are still 4% lower than that high-water mark.

If all boats were rising, tax cuts that benefit mostly the affluent wouldn't be a crisis. Under current circumstances, though, too many people are sinking or barely staying afloat. Lawmakers should focus their concern on those folks, not the ones in the yachts.

Have a nice and fruitful week!